SaskTel

Financial Statements of

DIRECTWEST CANADA, INC.

December 31, 2008

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AUDITORS' REPORT

To The Member's of the Legislative Assembly, Province of Saskatchewan

We have audited the statement of financial position of DirectWest Canada, Inc. as at December 31, 2008 and the statements of operations and comprehensive loss, deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Regina, Canada
January 30, 2009

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Statement of Operations and Comprehensive Loss

For the year ended December 31, (Thousands of dollars)	2008	2007
Gross revenue	$7,457	$5,651
Cost of sales	4,548	4,132
Gross profit	2,909	1,519
Operating expenses	4,751	4,495
Depreciation and amortization	273	359
	5,024	4,854
Loss from operations	(2,115)	(3,335)
Interest income	35	38
Non-controlling interest	-	13
Net loss	(2,080)	(3,284)
Other comprehensive income	-	-
Comprehensive loss	$(2,080)	$(3,284)

See accompanying notes

Statement of Deficit

For the year ended December 31, (Thousands of dollars)	2008	2007
Balance, beginning of year	$(5,918)	$(2,634)
Net loss	(2,080)	(3,284)
Balance, end of year	$(7,998)	$(5,918)

See accompanying notes

DirectWest Canada, Inc.

Statement of Financial Position

As at December 31, (Thousands of dollars)	2008	2007
Assets		
Current assets		
Cash	**$1,134**	$752
Accounts receivable (Note 10a)	**1,222**	995
Prepaid publishing costs	**4,254**	3,604
Prepaid expenses	**7**	31
	6,617	5,382
Property, plant and equipment (Note 5)	**131**	187
Intangible assets (Note 6)	**954**	1,161
Goodwill	**281**	281
	$7,983	$7,011
Liabilities and shareholder's equity		
Current liabilities		
Accounts payable and accrued liabilities (Note 10a)	**$1,583**	$1,468
Deferred revenue	**1,023**	1,086
	2,606	2,554
Shareholder's equity		
Share capital and contributed surplus (Note 7)	**13,375**	10,375
Deficit	**(7,998)**	(5,918)
	5,377	4,457
	$7,983	$7,011

See accompanying notes

On behalf of the Board:

Robert Watson

Mike Anderson

Statement of Cash Flows

For the year ended December 31, (Thousands of dollars)	2008	2007
Operating activities		
Net loss	**$(2,080)**	$(3,284)
Adjustments to reconcile net loss to cash used in operating activities		
Depreciation and amortization	**273**	359
Other	**-**	(152)
Net change in non-cash working capital (Note 10b)	**(801)**	(1,511)
Cash used in operating activities	**(2,608)**	(4,588)
Investing activities		
Property, plant and equipment expenditures	**(10)**	(25)
Investments, net of cash acquired	**-**	(460)
Cash used in investing activities	**(10)**	(485)
Financing activities		
Shareholder contributions (Note 7)	**3,000**	5,868
Increase in cash during the year	**382**	795
Cash, beginning of year	**752**	(43)
Cash, end of year	**$1,134**	$752

See accompanying notes

Notes to the Financial Statements

Note 1 – The Corporation and nature of operations

DirectWest Canada, Inc. (the Corporation) is incorporated under the *Canada Business Corporations Act*. The Corporation markets and supplies print phone directories in the Provinces of Alberta and Manitoba.

The Corporation is wholly owned by DirectWest Corporation (DW Corp) and the financial results are included in the consolidated financial statements of DW Corp. As a wholly owned subsidiary of Saskatchewan Telecommunications Holding Corporation (Holdco), through its subsidiary DW Corp, the Corporation is not subject to Federal or Provincial Income Taxes in Canada.

During the fourth quarter of 2008, DW Corp approved a plan whereby the operations of the Corporation will be divested and therefore the criteria in CICA Handbook Section 3475, Disposal of Long-lived Assets and Discontinued Operations are applicable. Accordingly, the long-lived assets of the Corporation being property, plant and equipment, and finite-life intangible assets meet the criteria of assets held for sale. These assets are no longer amortized and are recorded at the lower of carrying amount or fair value less cost to sell.

For the reasons described above these financial statements are not prepared on a going concern basis and the basis of measurement of assets and liabilities is as disclosed in the notes to the financial statements.

Note 2 – Change in accounting policies

Effective January 1, 2008, the Corporation adopted the accounting recommendations for capital disclosures (Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535) in accordance with the transition provisions of the section. This section requires disclosure of information related to the objectives, policies and processes for managing capital, and particularly whether externally imposed capital requirements have been complied with. As this standard only addresses disclosure requirements, there is no impact on the Corporation's operating results.

Effective January 1, 2008, the Corporation adopted the accounting recommendations for financial instruments - disclosures (CICA Handbook Section 3862) and financial instruments - presentation (CICA Handbook Section 3863) in accordance with the transition provisions of the sections. These sections replace the existing disclosure and presentation recommendations contained in financial instruments – disclosure and presentation (CICA Handbook Section 3861). The new disclosure standards increase the disclosures related to financial instruments, and the nature, extent and management of the Corporation's risks arising from financial instruments. The presentation standards carry forward unchanged the former presentation requirements. As these standards only address disclosure and presentation requirements, there is no impact on the Corporation's operating results.

Note 3 – Significant accounting policies

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

Prepaid publishing costs

The Corporation defers expenses that are directly related to its publications, including printing and distribution costs, direct production salaries and salaries of sales staff. These costs are charged to income over the life of the

Notes to the Financial Statements

Note 3 – Significant accounting policies, continued

related publication. Indirect costs are expensed as incurred. The Corporation assesses recoverability of these costs with reference to expected future revenues from the sale of the related directories, those costs not considered recoverable are charged to income.

Property, plant and equipment

Property, plant and equipment was recorded at cost less accumulated depreciation and amortization. Depreciation and amortization was calculated on a straight-line basis over the estimated useful lives of the assets (see note 1).

Asset	Estimated useful life
Office furniture, equipment and leaseholds	2-10 years

Finite-life intangible assets

Finite-life intangible assets acquired in a business combination were recorded at their fair values. Amortization was calculated over the estimated useful lives of the assets (see note 1).

Asset	Estimated useful life
Non-competition agreement	6 years
Customer list and relationships	10 years
Creative value of directories	3 years

Finite-life intangible assets were tested for impairment when events or changes in circumstances indicated that their carrying value may not be recoverable. They are written down to fair value when the related undiscounted cash flows are not expected to allow for recovery of the carrying value.

Indefinite-life intangible assets

Intangible assets with an indefinite life are not subject to amortization; they were tested annually for impairment to ensure that their fair value is greater than or equal to their carrying value. Any excess of carrying value over fair value is charged to income in the period in which impairment is determined.

Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Corporation's reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value

Notes to the Financial Statements

Note 3 – Significant accounting policies, continued

of goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the statement of operations and comprehensive loss.

Revenue recognition

Revenues are earned through the sale of print telephone directory advertising. Advertising revenues are generally recognized, in accordance with the contractual terms with advertisers, on a monthly basis over the life of the print directory advertising commencing with the delivery date. Amounts billed up front for directories are deferred and recognized over the corresponding life of the related directory.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the year-end exchange rates. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. Translation gains and losses on foreign currency denominated monetary items are taken into income in the current year.

Financial instruments

Upon initial recognition, financial instruments are measured at fair value and are classified as held-to-maturity, held-for-trading, available-for-sale, loans and receivables or other liabilities. Held-to-maturity assets are carried at amortized cost with amortized premiums or discounts and other than temporary losses due to impairment included in net income. Held-for-trading assets and liabilities are carried at fair value with any gains or losses included in net income. Available-for-sale assets are carried at fair value with revaluation gains or losses included in other comprehensive income until the asset is removed from the balance sheet. Loans and receivables, and other liabilities are accounted for at amortized cost using the effective interest method. Transaction costs are included in the initial carrying value of the financial instrument except for held-for-trading instruments in which case they are expensed as incurred.

Derivative financial instruments are used by the Corporation in the management of its financial exposures as deemed appropriate, and based on the risk management strategy of the Corporation. The Corporation's policy is not to use derivative financial instruments for trading or speculative purposes.

The Corporation, from time to time, is party to certain derivative financial instruments, principally forward foreign exchange contracts (used to manage foreign currency exposures).

The Corporation formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or anticipated transactions. The Corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

For fair value hedges, changes in the fair value of the derivatives and corresponding changes in fair value of the hedged items attributed to the risk being hedged will be recognized in net income. For cash flow hedges, the effective portion of the changes in the fair values of the derivative instruments will be recorded in other comprehensive income until the hedged items are recognized in net income.

Notes to the Financial Statements

Note 3 – Significant accounting policies, continued

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent asset and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amount of accounts receivable and underlying provision for bad debts, the carrying amount of intangible assets, goodwill, prepaid publishing costs and underlying estimates of future cash flows. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

Note 4 – Accounting policy developments

International Financial Reporting Standards (IFRS)

In February, 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises, including the Corporation, will be required to adopt IFRS in place of Canadian Generally Accepted Accounting Principles (GAAP) for interim and annual reporting in fiscal years beginning on or after January 1, 2011, including comparative figures for the prior year. The Corporation has commenced an IFRS conversion project including initiating the development of a high level IFRS implementation plan at the Holdco level. An external advisor has been engaged by Holdco to assist with the development of this plan and to perform a detailed review of major differences between current Canadian GAAP and IFRS. Work is in the early stages and, as a result, the impact on The Corporation's future financial position and results of operations is not reasonably determinable.

Goodwill and intangible assets

In February 2008, the CICA issued Handbook Section 3064, "Goodwill and Intangible Assets". Section 3064 states that upon their initial identification, intangible assets are to be recognized as assets only if they meet the definition of an intangible asset and the recognition criteria. This section also provides further information on the recognition of internally generated intangible assets (including research and development costs). As for the subsequent measurement of intangible assets, goodwill, and disclosure, Section 3064 carries forward the requirements of the old Section 3062, "Goodwill and Other Intangible Assets". The new section will become effective on January 1, 2009. The Corporation is currently evaluating the effect of the adoption of this new section on the financial statements.

Note 5 – Property, plant and equipment

	Cost	Accumulated depreciation and amortization	Net book value	
			2008	2007
			(Thousands of dollars)	
Office furniture, equipment and leaseholds	**$446**	**$315**	**$131**	$187

Depreciation and amortization for the year totaled $65,121 (2007 - $106,268). As described in note 1, these assets qualify as assets held for sale and are no longer depreciated or amortized.

Notes to the Financial Statements

Note 6 – Intangible assets

	Cost	Accumulated amortization	Net book value	
			2008	2007
			(Thousands of dollars)	
Non-competition agreement	$661	$504	$157	$248
Customer list and relationships	1,027	336	691	794
Other	164	58	106	119
	$1,852	$898	$954	$1,161

Other intangible assets include $104,188 (2007 – $104,188) indefinite life intangible assets as at December 31, 2008.

Amortization for the year totaled $207,480 (2007 - $253,041). As described in note 1, these assets qualify as assets held for sale and are no longer amortized.

Note 7 – Share capital and contributed surplus, and additional capital disclosures

a) Share capital and contributed surplus

	2008	2007
	(Thousands of dollars)	
Share capital		
Authorized – unlimited number of class A common shares		
Issued – 100 shares	$-	$-
Contributed surplus		
Balance, beginning of year	10,375	4,507
Contributions during the year	3,000	5,868
Share capital and contributed surplus, as at December 31	$13,375	$10,375

b) Additional capital disclosures

The Corporation's objectives when managing capital are to ensure adequate capital to support the operations of the Corporation, and to ensure adequate returns to the shareholder.

The capital structure is determined in conjunction with the shareholder based on the approved business plans.

The Corporation monitors capital on the basis of approved budgets and forecasts, and required funding for the Corporation.

The Corporation is not subject to any externally imposed capital requirements.

Notes to the Financial Statements

Note 8 – Commitments and contingencies

The Corporation is committed to future minimum payments under operating leases in each of the next five years as follows:

	(Thousands of dollars)
2009	$55
2010	39
2011	12
2012	-
2013	-

In the normal course of operations, the Corporation may become involved in various claims and litigation. While the final outcome with respect to claims and litigation cannot be predicted with certainty, it is the opinion of management that any resolution would not have a material adverse effect on the Corporation's financial position or results of operations.

Note 9 – Non-monetary transactions

During the year the Corporation entered into non-monetary transactions to exchange advertising for various products and services. No gains or losses have been reported on these transactions. Gross revenue includes $7,213 (2007 - $18,175), operating expenses include $7,213 (2007 - $18,175), deferred revenue includes $2,372 (2007 - $3,355), and prepaid publishing costs include $2,372 (2007 - $3,355), of non-monetary transactions.

Note 10 – Additional financial information

a) Balance sheet

	2008	2007
	(Thousands of dollars)	
Accounts receivable		
Customer accounts receivable	$2,290	$1,211
Allowance for doubtful accounts	(1,094)	(342)
	1,196	869
Other	26	126
	$1,222	$995
Accounts payable and accrued liabilities		
Trade accounts payable and accrued liabilities	$1,546	$1,423
Other	37	45
	$1,583	$1,468

Notes to the Financial Statements

Note 10 – Additional financial information, continued

b) Supplementary cash flow information

	2008	2007
	(Thousands of dollars)	
Net change in non-cash working capital		
Accounts receivable	**$(227)**	$(477)
Prepaid publishing costs	**(650)**	(665)
Prepaid expenses	**24**	1
Accounts payable and accrued liabilities	**115**	(675)
Deferred revenue	**(63)**	305
	$(801)	$(1,511)

Note 11 – Financial instruments

The Corporation's financial instruments include cash, accounts receivable, and accounts payable and accrued liabilities, which by their nature are subject to risks.

a) Fair value

Fair values approximate amounts at which financial instruments could be exchanged between willing parties based on current markets for instruments with similar characteristics such as risk, principal and remaining maturities. Fair values are estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates that reflect varying degrees of risk. Therefore, due to the use of judgment and future-orientated information, aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

The following table represents the carrying amounts and fair values of financial assets and liabilities measured at fair value or amortized cost:

(Thousands of dollars)		2008		2007	
Financial Instruments	Classification[1]	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets					
Cash	HFT	**$1,134**	**$1,134**	$752	$752
Accounts receivable	LAR	**1,222**	**1,222**	995	995
Financial Liabilities					
Accounts payable and accrued liabilities	OL	**$1,583**	**$1,583**	$1,468	$1,468

[1] Classification details are:
HFT – held-for-trading
LAR – loans and receivables
OL – other liabilities

The carrying values of cash, accounts receivable, and accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these financial instruments.

Notes to the Financial Statements

Note 11 – Financial instruments, continued

b) Currency risk

The Corporation is exposed to currency risk primarily through transactions with foreign suppliers and short-term foreign commitments. Assuming all other variables remained constant at December 31, 2008, each $0.01 weakening in the Canadian dollar versus US dollar exchange rate would reduce net income by $37,000 while each $0.01 strengthening would increase net income by $37,000. The Corporation uses a combination of derivative financial instruments to manage these exposures on an exception basis. The Corporation does not actively trade derivative financial instruments. At December 31, 2008, there were no derivative financial instruments outstanding.

c) Interest rate risk

The Corporation is exposed to interest rate risk arising from fluctuations in interest rates on cash. However, this risk has been assessed as minimal due to the magnitude of the underlying assets and liabilities.

d) Market risk

The Corporation is exposed to minimal market risk and therefore the risk is not actively managed.

e) Credit risk

The Corporation is exposed to credit risk through its accounts receivable. Credit risk related to customer accounts receivable is minimized because of the large and diverse customer base covering many business sectors. The Corporation evaluates customer credit risk and limits credit availability when necessary.

The carrying amount of financial assets represents the maximum credit exposure as follows:

	2008	2007 (Thousands of dollars)
Cash	$1,134	$752
Accounts receivable	1,222	995
	$2,356	$1,747

The aging of customer receivables, which indicates potential impairment losses, is as follows:

	2008	2007 (Thousands of dollars)
Current	$514	$295
30-60 days past billing date	334	299
61-90 days past billing date	173	104
Greater than 90 days past billing date	1,269	513
Total	$2,290	$1,211

Notes to the Financial Statements

Note 11 – Financial instruments, continued

Provisions for credit losses are maintained and regularly reviewed by the Corporation, based on an analysis of the aging of customer accounts. Amounts are written off once reasonable collection efforts have been exhausted. Details of the allowance account are as follows:

	2008	2007
		(Thousands of dollars)
Allowance for doubtful accounts, opening balance	$342	$253
Accounts written off	(239)	(578)
Recoveries	34	135
Provision for losses	957	532
Allowance for doubtful accounts, closing balance	$1,094	$342

f) Liquidity risk

The following are the contractual maturities of financial liabilities, all of which are due within six months of the respective year ends:

December 31, 2008

	Carrying Amount	Contractual cash flows	6 mths or less
			(Thousands of dollars)
Accounts payable and accrued liabilities	$1,583	$1,583	$1,583

December 31, 2007

	Carrying Amount	Contractual cash flows	6 mths or less
			Thousands of dollars
Accounts payable and accrued liabilities	$1,468	$1,468	$1,468

Sufficient cash flows are expected to be generated to fund these contractual obligations.

Note 12 – Related party transactions

Included in these financial statements are transactions with Holdco and its subsidiaries, various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to Crown Investments Corporation of Saskatchewan (CIC) by virtue of common control by the Government of Saskatchewan, and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Notes to the Financial Statements

Note 12 – Related party transactions, continued

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Other transactions in the normal course of operations are recorded at the exchange amount which is the amount of consideration established and agreed to by the related parties. These transactions and amounts outstanding at year-end are as follows:

	2008	2007
		(Thousands of dollars)
Sales	$7	$4
Operating expenses	433	623
Prepaid publishing costs	53	76
Accounts receivable	25	20
Accounts payable and accrued liabilities	170	165

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Ministry of Finance on all taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to (from) related parties and terms of settlement are described separately in these financial statements and notes thereto.